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DEPARTMENT OF AUDITOR-CONTROLLER**

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February 15, 2012

TO: Supervisor Zev Yaroslavsky, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe  
Auditor-Controller

SUBJECT: **PUBLIC HEALTH FOUNDATION ENTERPRISES, INC. – A  
DEPARTMENT OF PUBLIC HEALTH HIV/AIDS CARE AND  
PREVENTION SERVICE CONTRACT PROVIDER – FISCAL REVIEW**

We completed a fiscal review of Public Health Foundation Enterprises, Inc. (PHFE or Agency). The County Department of Public Health (DPH) Division of HIV and STD Programs (DHSP) contracts with PHFE for the Agency to provide HIV/AIDS psychosocial case management and transitional case management services. Our review covered a sample of transactions from April 2010 through April 2011.

The purpose of our review was to determine whether the PHFE provided the services to eligible clients, and spent funds in accordance with their County contract. We also evaluated the Agency's accounting records, internal controls, and compliance with the contract and applicable guidelines.

At the time of our review, PHFE had two cost-reimbursement contracts with DHSP. Our review also included one other DHSP cost-reimbursement contract that expired on December 31, 2010. DHSP paid PHFE a total of approximately \$361,000 on all three contracts from April 2010 to April 2011. PHFE provides services to residents of the Third and Fifth Supervisorial Districts.

**Results of Review**

PHFE recorded and deposited DHSP payments timely, and maintained the required personnel records. PHFE's Cost Reports also reconciled to the Agency's accounting

records. However, PHFE did not always comply with all of the County contract requirements. Specifically, PHFE:

- Did not ensure that subcontractors obtained documentation to support clients' eligibility for DHSP services.

*PHFE's attached response indicates that they will ensure that subcontractors obtain the required documentation.*

- Overcharged DHSP \$6,300 for rent that should have been allocated to other programs in accordance with their Cost Allocation Plan. Specifically, PHFE inappropriately allocated rent costs based on budget, and not on the actual number of full-time equivalent staff working on the DHSP Program, as required.

*PHFE's attached response indicates that they disagree with this finding, and that they allocated rent in accordance with their Cost Allocation Plan. However, as indicated above, PHFE allocated the rent based on budgeted estimates, instead of on the actual number of full-time equivalent staff working on the DHSP Program as required by their Cost Allocation Plan.*

- Charged DHSP \$5,659 for indirect costs that either exceeded the County contract's reimbursable limit for indirect costs, or were unsupported.

*PHFE's attached response indicates that they disagree with this finding, and that they calculated their indirect costs using their federally-approved indirect cost rate of 8.5%. However, as we explained to PHFE at our exit conference, the County contract limits indirect costs to 15% of total salaries and employee benefits. As a result, PHFE's charges exceeded the maximum reimbursable limit for one County contract by \$3,516. In addition, PHFE charged \$2,143 more than their federally-approved indirect cost rate allows on the other two County contracts.*

Details of our review, along with recommendations for corrective action, are attached.

### **Review of Report**

We discussed our report with PHFE and DHSP. As indicated above, the Agency disagreed with some of our findings, and with our recommendations to repay DHSP for the questioned costs. DHSP indicated that they will work with the Agency to ensure the questioned costs are repaid.

We thank PHFE for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

WLW:JLS:DC:AA

Attachment

c: William T Fujioka, Chief Executive Officer  
Jonathan E. Fielding, M.D., M.P.H., Director, Department of Public Health  
Mark J. Bertler, Chief Executive Officer, Public Health Foundation Enterprises, Inc.  
Michael S. Ascher, Chair, Public Health Foundation Enterprises, Inc.  
Public Information Office  
Audit Committee

**PUBLIC HEALTH FOUNDATION ENTERPRISES, INC.  
HIV/AIDS CARE AND PREVENTION SERVICES  
APRIL 2010 TO APRIL 2011**

**ELIGIBILITY**

**Objective**

Determine whether Public Health Foundation Enterprises, Inc. (PHFE or Agency) provided services to clients who met the County Department of Public Health (DPH) Division of HIV and STD Programs (DHSP) Program eligibility requirements.

**Verification**

We reviewed the case files for 32 clients who received services from April 2010 to March 2011 for documentation of their eligibility for DHSP services. Our sample included 12 clients who received services from PHFE, and 20 clients who received services from PHFE's subcontractors.

**Results**

The case files for four (20%) of the 20 PHFE subcontractor clients did not contain documentation to support their eligibility for DHSP services. Three of the case files did not contain income verification, and one case file did not contain residency or income verification.

**Recommendation**

1. PHFE management ensure Agency subcontractors obtain documentation from clients to support their eligibility for DHSP services.

**CASH/REVENUE**

**Objective**

Determine whether PHFE had adequate controls to ensure cash receipts and revenue were recorded in the Agency's financial records properly, and cash receipts were deposited into the Agency's bank account timely.

**Verification**

We interviewed PHFE's personnel, and reviewed the Agency's financial records and April 2011 bank reconciliation.

**Results**

PHFE recorded revenue and cash properly, and deposited cash timely.

**Recommendation**

None.

**COST ALLOCATION PLAN**

**Objective**

Determine whether the Agency prepared its Cost Allocation Plan in compliance with the County contract, and used the Plan to allocate shared program costs appropriately.

**Verification**

We reviewed PHFE's Cost Allocation Plan, and a sample of shared costs the Agency incurred from September 2010 through March 2011.

**Results**

PHFE's Cost Allocation Plan was prepared in compliance with the County contract. However, PHFE charged DHSP \$6,300 for rent that was not allocated in accordance with the Agency's Cost Allocation Plan. Specifically, PHFE inappropriately allocated rent based on budget, and not on the actual number of full-time equivalent staff working on the DHSP Program, as required by the Cost Allocation Plan.

**Recommendations**

**PHFE management:**

- 2. Repay DPH \$6,300.**
- 3. Ensure shared program costs are appropriately allocated among all benefitting programs.**

**EXPENDITURES**

**Objective**

Determine whether expenditures charged to the DHSP Program were allowable under the County contract, properly documented, and accurately billed.

**Verification**

We interviewed PHFE personnel, and reviewed financial records for 13 non-payroll expenditures, totaling \$36,122, that the Agency charged to the DHSP Program from June 2010 and March 2011.

**Results**

PHFE inappropriately charged DHSP \$5,659 in unallowable or unsupported indirect costs. Specifically, PHFE charged DHSP:

- \$3,516 in excess indirect costs on one contract. The amount exceeded the County contract limit on indirect costs of 15% of total salaries and employee benefits. PHFE's actual salaries and employee benefits totaled \$4,998, resulting in a maximum indirect cost of \$750 ( $\$4,998 \times 15\%$ ). However, PHFE billed DHSP \$4,266, which is \$3,516 ( $\$4,266 - \$750$ ) over the maximum.
- \$2,143 in excess indirect costs on the other two contracts. Using PHFE's federally-approved indirect cost rate of 8.5%, PHFE should have charged DHSP \$9,297 in indirect costs. However, PHFE charged DHSP \$11,440, resulting in a \$2,143 ( $\$11,440 - \$9,297$ ) overcharge.

**Recommendations**

**PHFE management:**

4. Repay DPH \$5,659 ( $\$3,516 + \$2,143$ ).
5. Ensure that charges for indirect costs do not exceed the contracts' limits.

**PAYROLL AND PERSONNEL****Objective**

Determine whether PHFE charged payroll expenditures to the DHSP Program appropriately. In addition, determine whether the Agency's personnel files were maintained as required.

**Verification**

We traced the payroll expenditures for four employees, totaling \$9,248, from December 2010 to the Agency's payroll records and time reports. We also reviewed the personnel files for DHSP Program staff.

**Results**

PHFE appropriately charged payroll expenditures to the DHSP Program, and maintained personnel files as required by the County contract.

**Recommendation**

None.

**COST REPORTS**

**Objective**

Determine whether the Agency's Cost Reports reconciled to the accounting records.

**Verification**

We traced the Agency's Cost Reports to their accounting records for June 2010, December 2010, and March 2011.

**Results**

PHFE's Cost Reports reconciled to their accounting records.

**Recommendation**

None.



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December 21, 2011

Kenneth Hahn Hall of Administration  
500 West Temple Street, Room 525  
Los Angeles, CA 90012-3873

Re: Public Health Foundation Enterprises, Inc. - A Department of Public Health HIV/AIDS Care and Prevention Service Contract Provider - Fiscal Review

Attn: Wendy L. Watanabe Auditor-Controller

Following is PHFE's response to the DHSP report dated November 1, 2011:

#### **ELIGIBILITY**

**Objective:** Determine whether Public Health Foundation Enterprises (PHFE or Agency) provided services to clients who met the County Department of Public Health's (DPH) Office of AIDS Programs and Policy (DHSP) Program eligibility requirements.

**Verification:** We reviewed the case files for 32 clients who received services from April 2010 to March 2011 for documentation of their eligibility for DHSP services. Specifically, 12 of the clients received services from PHFE and 20 of the clients received services from PHFE's subcontractors.

**Results:** The case files for four PHFE subcontractor clients did not contain documentation to support their eligibility for DHSP services. Specifically, three case files did not contain income verification and one case file did not contain residency and income verification.

**Recommendation:** PHFE management ensure Agency subcontractors obtain documentation from clients to support their eligibility for DHSP services.

**Response:** Strict contracting procedures have been enforced by the PHFE team to review and ensure that all contracting documentation and requirements are met and in place prior to execution of any agreements.

#### **CASH/REVENUE**

**Objective:** Determine whether PHFE had adequate controls to ensure cash receipts and revenue were recorded in the Agency's financial records properly, and were deposited into the Agency's bank account timely.

**Verification:** We interviewed PHFE's personnel and reviewed the Agency's financial records and April 2011 bank reconciliation.

**Results:** PHFE had adequate controls to ensure that revenue and cash were recorded properly, and deposited timely.

**Recommendation:** None

### **COST ALLOCATION PLAN**

**Objective:** Determine whether the Agency prepared its Cost Allocation Plan in compliance with the County contract, and used the Plan to allocate shared Program costs appropriately.

**Verification:** We reviewed PHFE's Cost Allocation Plan, and a sample of shared costs the Agency incurred from September 2010 through March 2011.

**Results:** PHFE's Cost Allocation Plan was prepared in compliance with the County contract. However, PHFE's rent costs were not appropriately allocated to the benefiting programs. As a result, DHSP was overcharged \$8,300 for rent.

**Recommendations:** PHFE management:

1. Repay DPH \$8,300.
2. Ensure shared program costs are appropriately allocated to the benefited programs.

**Response:** PHFE has a lease with 1680 Vine Investment for the location at 1680 N. Suite 1119, Los Angeles, CA 90028. This location houses three programs: LAFAN (Los Angeles Family AIDS Network (0054), Case Management-Psychosocial (0123.018.001) and TCS-Psychosocial/TCM-Youth Services (2290.002.001/601). In keeping with the Cost Allocation Plan that was submitted and approved by the County to charge 25% of the rent to each contract, \$369.25 should have been charged on a monthly basis. The total amount charged to the two contracts was \$12,790.50. The amount that should have been charged according to the approved cost allocation plan is \$13,293.00 (\$369.25 x 36). PHFE does not believe any amount is due to the County of Los Angeles.

### **EXPENDITURES**

**Objective:** Determine whether expenditures charged to the DHSP program were allowable under the County contract, properly documented, and accurately billed.

**Verification:** We interviewed PHFE personnel, and reviewed financial records for 13 non-payroll expenditures, totaling \$36,122, that the Agency charged to the DHSP Program from June 2010 and March 2011.

**Results:** PHFE inappropriately charged DHSP \$7,566 for accounting expenditures that were not supported by adequate documentation.

After our review, PHFE provided documentation to support \$5,423 of the \$7,566 in questioned costs. However, the Agency's billings for administrative costs exceeded the County contract's reimbursable limit by \$3,515. As a result, the questioned costs were reduced to \$5,659.

**Recommendations:** PHFE management:

1. Repay DPH \$5,659.
2. Ensure that billings for administrative costs do not exceed the contract's reimbursable limit.

**Response:** PHFE's federally approved indirect rate for the audited period is 8.5% MTDC (Modified Total Direct Costs). When calculating our indirect using our approved rate, the total for the contract's audited equals \$14,204.54. We charged \$15,705.21 for a discrepancy of \$1,500.67, which is the amount we believe to be owed to the County of Los Angeles.

0123.018.001 (Contract #H208541-Case Mgmt-Psychosocial) MTDC Base=\$57,728.09 x 8.5% = \$4,906.89  
2290.002.001 (Contract #PH000598-Psychosocial) MTDC Base = \$51,284.48 x 8.5% = \$5,209.18

2290.002.901 (Contract #PH000556-Youth Services) MTDC Base = \$49,089.67 x 6.5% = \$4,088.47

#### **PAYROLL AND PERSONNEL**

**Objective:** Determine whether PHFE charged payroll expenditures to the DHSP Program appropriately. In addition, determine whether the Agency's personnel files were maintained as required.

**Verification:** We traced the payroll expenditures for four employees, totaling \$9,249 from December 2010 to the Agency's payroll records and time reports. We also reviewed the personnel files for DHSP program staff.

**Results:** PHFE properly charged payroll expenditures to the DHSP Program, and maintained personnel files as required by the County contract.

**Recommendation:** None.

#### **COST REPORTS**

**Objective:** Determine whether the Agency's Cost Reports reconciled to the accounting records.

**Verification:** We traced the Agency's Cost Reports to their accounting records for June 2010, December 2010, and March 2011.

**Results:** PHFE's Cost Reports reconciled to their accounting records.

**Recommendation:** None.

Please let us know if you have any questions or require any additional information from us. Thank you.

Sincerely,



Marty A. Berlier, CEO